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Report Highlights:

Sugar beet production in Russia is forecast to continue to rise due to strong prices that result from high import barriers. These positive price trends and stable imports are attracting increased investment into the sugar beet sector. Russian production is forecast to increase by 25 percent in 2004 due to higher planted area, good initial planting conditions, and industry investment. Despite the switch from a tariff rate quota to a tariff-only system, Russian's imports are forecast to remain stable in 2004.

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Table of Contents

Executive Summary	3
Production	3
Table 1. Sugar Beet Production, Calendar Year 2001, 2002, and 2003	3
Table 2. Production, Supply, and Distribution of Sugar Beets.....	4
Investments into sugar beet industry	4
Consumption	4
Table 3. Sugar Production and Utilization, By Calendar Year, 1,000 MT	4
Table 4. Production, Supply, and Distribution of Sugar	5
Trade	5
Table 5. Raw and white sugar imports in 2002-2003 FY, MT	5
Table 6. Retail sugar prices*, January 2001-August 2003	6
“Grey Market” Sugar Imports	6
Stocks	6
Policy	7
Tariffs	7
Sugar containing products	7
Raw and refined sugar.....	7

Executive Summary

Sugar beet production in Russia is forecast to continue to rise due to strong prices that result from protection from sugar imports. Russian production is forecast to increase by 25 percent in 2004 due to an 11 percent increase in planted area and good initial planting conditions. Poor harvesting and winter conditions prevented the harvest of beets in some areas in 2003 and negatively affected yields, but overall production rose despite these problems. Positive price trends and stable imports are attracting increasing investments into the sugar beet sector and also increasing the importance of the Central and Volga districts to overall production. Russian imports are forecast to remain stable in 2004, despite the switch from a tariff rate quota to a tariff only system.

Production

Production of sugar beets in Russia is forecast to increase by 25 percent in 2004 due to an 11 percent increase in planted area and a return to normal harvest rate. Initial planting conditions for the 2004 crop suggest potential for better than average beet and sugar yields. Production in 2005 is currently forecast at about the same level as 2004, considering slightly higher planted acreage and normal yields.

Russia experienced one of the largest sugar beet harvests in recent years in 2003, which resulted from increased planted acreage and record yield. High yields were spurred by good weather, increased local government support, increasing renovation of agricultural machinery, and better supplies of fuel, fertilizers and pesticides. However, many sugar beets were not harvested at all in 2003 as some regional refineries refused to buy beets during some periods of the season due to financial problems. Russian production is expected to continue to grow in 2004 and 2005 as measures protecting Russian producers from imported raw sugar provide sustained high prices.

High profit margins on sugar beet processing were posted in several regions and lower profit margins associated with raw sugar imports prompted expansion of the land planted over the past several years. Final spring 2003 statistics show planted area at over 924,100 hectares, 13.6 percent more than 2002.

Table 1. Sugar Beet Production, Calendar Years 2001, 2002, and 2003

	2003	2002	2001	Average, 1996-2000
Sugar beet area, HA	924,000	809,000	773,000	902,000
Sugar beet production, MMT	19.4	15.7	14.6	14.0
Sugar Beet Yield, MT/hectare (harvested crop)	22.8	21.9	19.9	17.7

Source: Russian State Statistics Committee

Table 2. Production, Supply, and Distribution of Sugar Beets
PSD Table

Country	Russian Federation				(1000 HA)(1000 MT)		UOM
Commodity	Sugar Beets						
	2003 USDA Official [Old]	Revised Post Estimate [New] 09/2002	2004 USDA Official [Old]	Estimate Post Estimate [New] 09/2003	2005 USDA Official [Old]	Forecast Post Estimate [New] 09/2004	MM/YYYY
Market Year Begin							
Area Planted	900	900	1000	1000	0	1050	(1000 HA)
Area Harvested	800	800	920	940	0	950	(1000 HA)
Production	15500	15500	17000	19300	0	19000	(1000 MT)
TOTAL SUPPLY	15500	15500	17000	19300	0	19000	(1000 MT)
Utilization for Sugar	15500	15500	17000	19300	0	19000	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	15500	15500	17000	19300	0	19000	(1000 MT)

Investments into sugar beet industry

Notwithstanding isolated input problems and a slowly developing system of producer contracting, banks and other investors are investing into sugar production. Using the beet harvest as collateral, some banks are offering production loans of up to 18,000 rubles per hectare to buy seeds, fertilizers, agrochemicals, fuel, and to pay salaries. Banks and local administrations are also playing an important role in some areas by forging better ties between producers and processors. Ineffectual contracts, financing of processors, and poor processor planning have caused serious problems in some regions for efficient contracting and delivery of sugar beets to processing plants.

Consumption

Consumption of sugar continues to be relatively stable in Russia—growth is expected to be about one percent in 2004 and 2004. Domestic production is forecast to capture most of this growth.

Table 3. Sugar Production and Utilization, By Calendar Year, 1,000 MT

	2003	2002	2001
White sugar	5,835	6,197	6,593
From sugar beets	1,896	1,620	1,610
Confectionary products	2,096	1,952	1,794
Canned jams and preserves, mln conditional cans	6,346	5,616	3,490
Hard alcoholic drinks, mln deciliters	135	139	131

Source: Russian State Statistics Committee

**Table 4. Production, Supply, and Distribution of Sugar
PSD Table**

Country	Russian Federation		Centrifugal Sugar		(1000 MT)		UOM
Commodity	2003 USDA Official [Old]	Revised Post Estimate [New] 10/2002	2004 USDA Official [Old]	Estimate Post Estimate [New] 10/2003	2005 USDA Official [Old]	Forecast Post Estimate [New] 10/2004	MM/YYYY
Market Year Begin							
Beginning Stocks	2130	2130	1050	1050	540	540	(1000 MT)
Beet Sugar Production	1580	1580	1800	1930	0	1900	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	1580	1580	1800	1930	0	1900	(1000 MT)
Raw Imports	3500	3700	3500	3800	0	4300	(1000 MT)
Refined Imp.(Raw Val)	400	300	300	350	0	350	(1000 MT)
TOTAL Imports	3900	4000	3800	4150	0	4650	(1000 MT)
TOTAL SUPPLY	7610	7710	6650	7130	540	7090	(1000 MT)
Raw Exports	10	10	10	10	0	10	(1000 MT)
Refined Exp.(Raw Val)	250	250	100	100	0	100	(1000 MT)
TOTAL EXPORTS	260	260	110	110	0	110	(1000 MT)
Human Dom. Consumption	6300	6400	6000	6480	0	6520	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	6300	6400	6000	6480	0	6520	(1000 MT)
Ending Stocks	1050	1050	540	540	0	460	(1000 MT)
TOTAL DISTRIBUTION	7610	7710	6650	7130	0	7090	(1000 MT)

Trade

Russian imports in 2004 and 2005 are forecast at 4.15 MMT and 4.65 MMT. Imports in 2004 and 2005 are expected to grow contingent on continued growth in domestic production. Russia imported 3.7 MMT of raw sugar in 2003, 28 percent below the previous year.

Table 5. Raw and white sugar imports in 2002-2003 FY, MT

	Raw sugar		Refined sugar	
	2002 FY	2003 FY	2002 FY	2003 FY
QIV, 2003	1,083,988	413,105	12,533	123,559
QI	1,006,974	812,247	11,257	39,566
QII	2,302,289	1,489,002	17,296	34,235
QIII	718,631	969,983	11,110	41,345
Total	5,111,882	3,684,337	52,196	238,705
QIV, 2004	413,105	825,551	123,559	34,434

Source: Russian Customs Statistics

Companies importing raw sugar operated under the quota through February 2004. Raw sugar imports under the new regime began in March (see policy section). February imports accounted for only 77,530 MT at a duty of \$250/MT. A decrease of the custom duty for March (to \$221 per MT) should increase raw imports. The April duty was fixed at \$235/MT, which should also permit more sugar in the period of low stocks of domestically produced sugar. The overall reduction of raw sugar imports was due to large carry-over inventories of raw sugar and relatively low prices on refined sugar.

Table 6. Retail sugar prices*, January 2002 - February 2004

	2002	2003	2004
January	15.18	19.83	18.63
February	15.15	20.42	18.63
March	no data	20.70	Not applicable
April	15.03	20.62	Not applicable
May	14.96	20.39	Not applicable
June	no data	20.16	Not applicable
July	17.71	20.08	Not applicable
August	no data	19.90	Not applicable
September	17.23	19.26	Not applicable
October	17.99	18.50	Not applicable
November	18.91	17.73	Not applicable
December	19.47	18.34	Not applicable

Source: Russian "Trade Newspaper"

*Exchange rate ranged between 28.50-32.00 rubles/\$

"Grey Market" Sugar Imports

The Government's Commission for Food Market Issues, chaired by Minister of Agriculture Aleksey Gordeyev, decided that Russia must take steps to prevent what he termed "illegal" shipments of white sugar arriving from Belarus and Kazakhstan. Gordeyev told the press that such a measure is not about restricting legal shipments, but about violations of the customs regime and about smuggling. Russian producers have continued to complain that various means are being used to bring in sugar and sugar containing products from neighboring countries that have preferential trade relations with Russia, but that these shipments either do not conform to rules of origin restrictions or otherwise try to obtain lower duty treatment.

Russian custom posts have already strengthened control of sugar imports from Belarus. State Customs Committee directives call for the opening of two customs clearance points for sugar on the border with Belarus in the near future. As evidence of the problem, in March 2004, Russian Customs detected several shipments of refined cane sugar declared as beet sugar. This type of scheme helps importers avoid payment of custom duties in accordance with the agreement between the two countries that products processed with Belarussian beet sugar are exempt from duties. Russian producers state that while Belarus produced 254,000 MT of white sugar from sugar beets in 2003, from October 2004 to February 2004 Belarus shipped 258,000 MT of white sugar to Russia.

Stocks

Overall stocks continue to decrease in Russia as the transparent import regime implemented over the past several years decreases the need for producers and imports to maintain high stocks.

Policy

For the previous three years (2000-2003), raw sugar imports had been limited by a tariff rate quota, in which quota shares were sold at auction. This system has now been replaced by a fluctuating tariff based on the price of sugar on the New York Board of Trade (see Report RS4002 for more details). This new system may be easier for the government to administer, but it complicates the situation for importers and traders. The Agrarian news agency stated, "In fact, the new regime has stripped sugar companies of the opportunity of work planning. No one can see or plan more than a month-and-a-half ahead." The difficulty of importing from distant suppliers and the frequently changing tariff are clearly challenging for planning purposes.

Tariffs

Sugar containing products

Products that contain sugar (artificial honey, syrups containing more than 50 percent sucrose in dry weight, chocolate and other cocoa products with more than five percent sucrose and a number of other commodities) were subject to import duties of 0.23 euros per kg beginning December 17, 2003. These rules were designed to help to close "custom holes", which allowed circumvention of the sugar quota. The duty on these products was previously five percent of the customs value.

With the aim of protecting the domestic sugar beet industry, the government has also signed a resolution on criteria for the degree to which imported raw sugar and white sugar must be processed. In determining the country of origin of raw sugar and white sugar imports, mixing (including dilution with water, addition of flavorings, cocoa or other substances) will not meet the criteria if the goods in question are classified under the 1702, 1704, 1806 and 2106 tariff codes.

Raw and refined sugar

The Russian government adopted a resolution for the regulation of raw and white sugar imports in 2004 (see Report RS4002 for a complete translation). The customs rate will be determined according to raw sugar quotations on the New York Mercantile Exchange. The price will be calculated monthly as the average arithmetic raw sugar price under contract for all trading days (at the close of trading). The Ministry of Economic Development and Trade is in charge of providing the State Customs Committee with data on average monthly raw sugar prices before the 15th of each month and with publishing it in the media.

The State Customs Committee levies customs duties based on these figures starting from the first of the month following the receipt of the data. The government establishes that, if the price for raw sugar is equal to or less than \$99.21/ton, the duty will be \$270/ton. Otherwise the duty ranges from \$250/MT to \$140/MT based on the sugar price. The import duty on white sugar is set at \$340 for 2004.